

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF PURCHASE PUBLIC	)	
SERVICE CORPORATION FOR A RATE	)	
ADJUSTMENT PURSUANT TO THE ALTERNATIVE	)	CASE NO. 92-536
RATE FILING PROCEDURE FOR SMALL	)	
UTILITIES	)	


O R D E R

On December 30, 1992, Purchase Public Service Corporation ("Purchase Public") filed its application for Commission approval to increase its sewer rates. Commission Staff, having performed a limited financial review of Purchase Public's operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding the proposed rates. All parties should review the report carefully and provide any written comments or requests for a hearing or informal conference no later than 15 days from the date of this Order.

IT IS THEREFORE ORDERED that all parties shall have 15 days from the date of this Order to provide written comments regarding the attached Staff Report or requests for a hearing or informal conference. If no request for a hearing or informal conference is received, then this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 19th day of April, 1993.

PUBLIC SERVICE COMMISSION

  
For the Commission

ATTEST:

  
Executive Director

COMMONWEALTH OF KENTUCKY  
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STAFF REPORT

Prepared By: Jack Scott Lawless, CPA  
Public Utility Financial  
Analyst  
Water and Sewer Revenue  
Requirements Branch  
Financial Analysis

Prepared By: John Geoghegan  
Public Utility Rate  
Analyst  
Communications, Water  
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Division of Rates and Research

STAFF REPORT

ON

PURCHASE PUBLIC SERVICE CORPORATION

CASE NO. 92-536

A. Preface

On December 30, 1992, Purchase Public Service Corporation ("Purchase Public") filed its application with the Kentucky Public Service Commission ("Commission") seeking approval to increase its tariffed sewer rates by \$5,969.

In order to evaluate the requested increase, the Commission Staff ("Staff") chose to perform a limited financial review of Purchase Public's operations for the test period, the twelve month period ending December 31, 1991. Jack Scott Lawless of the Commission's Division of Financial Analysis conducted the review on January 7, 1993 at the Purchase Area Development District's office in Mayfield, Kentucky. John Geoghegan of the Commission's Division of Rates and Research performed a review of Purchase Public's reported revenues at the offices of the Commission.

The findings of the field review have been reduced to writing in this report. Mr. Geoghegan is responsible for the sections related to operating revenues and rate design. The remaining sections of this report were prepared by Mr. Lawless. Based upon the findings of this report, Staff recommends that Purchase Public be allowed to increase its normalized operating revenues by \$5,881.

Scope

The scope of the review was limited to obtaining information to determine whether test period operating revenues and expenses were

representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

During the course of the review, Purchase Public was advised that all proposed adjustments to test year expenses must be supported by some form of documentation and that all such adjustments must be known and measurable.

#### B. Analysis of Operating Revenues and Expenses

##### Operating Revenue

Purchase Public's 1991 annual report indicates that it received \$3,447 in revenues from rates during the test year. After review of the data filed by Purchase Public in its application, Staff recommends no adjustments to this figure.

##### Operating Expenses

Purchase Public reported operating expenses of \$14,056 in its 1991 annual report which it proposed to decrease by \$5,770. Staff has decreased test year expenses by \$5,847 as shown on Appendix B attached to this report. Purchase Public's and Staff's pro forma adjustments to test period operations are discussed in the following sections of this report.

##### Other Labor and Materials/Routine Maintenance

During the test year Purchase Public reported expenses of \$5,010 and \$5,860 in its other labor and materials and routine maintenance accounts, respectively. Purchase Public proposed to eliminate \$6,370 of these expenses in order to reflect its proposed routine maintenance agreement with the Purchase Area Development District in the amount of

\$4,500<sup>1</sup>. After consulting with Mr. Larry Updike of the Commission's Division of Engineering, Staff deems this a reasonable amount for a maintenance contract. This Commission reviewed a similar agreement between the Purchase Area Development District and Mayfield Service Corporation in Case No. 89-186<sup>2</sup> and found its associated expenses to be reasonable. To be consistent with the prior Commission order, Staff has accepted Purchase Public's adjustment for determining revenue requirements in this case.

Miscellaneous Supplies

During the test year Purchase Public reported \$755 in the miscellaneous supplies account. During its review Staff was supplied with supporting documentation for items included in this account except for invoices totaling \$186. Staff has eliminated that amount from test year miscellaneous supplies expense to calculate pro forma revenue requirements.

Included in this account was \$458 which reflects monthly water testing performed by McCoy and McCoy. Staff has decreased this amount

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<sup>1</sup>	Other labor and materials	\$ 5,010
	Routine maintenance	<u>5,860</u>
	Total test year	10,870
	Less: Adjustment	<u>(6,370)</u>
	Pro forma	<u>\$ 4,500</u>

<sup>2</sup> The Application of Mayfield Service Corporation for a Rate Adjustment Pursuant to the Alternative Rate Filing Procedure for Small Utilities.

by \$242<sup>3</sup> to reflect quarterly water testing, which reflects the frequency of current water testing by Purchase Public.

Administrative Services

Purchase Public included in its determination of revenue requirements an adjustment to reflect an agreement between itself and the Purchase Area Development District where by Purchase Public will pay \$600 annually as compensation for administrative services performed by the Development District. A fee of this nature is generally allowed by this Commission and Staff agrees with the proposed adjustment. Therefore, pro forma operating expenses have been increased by \$600.

KPDES Permit

Staff has amortized the cost of the KPDES discharge permit of \$1,500 over the five year life of the permit resulting in a \$300 increase in test year operation and maintenance expenses. Purchase Public failed to include this adjustment in its application.

PSC Assessment

Purchase Public will be required to pay an annual PSC assessment fee of \$50. This fee was not included in test year expenses. Therefore, Staff has increased operating expenses by \$50 to allow recovery of this expense.

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<sup>3</sup>	Quarterly charge	\$	54
	Annualize		<u>4</u>
	Pro forma		216
	Less: Test year		<u>(458)</u>
	Adjustment	\$	<u>(242)</u>

C. Revenue Requirements Determination

Staff recommends that Purchase Public's revenue requirements be calculated using an 88 percent operating ratio, which is the approach frequently used by this Commission for small, privately owned utilities. Staff understands that Purchase Public is a non-profit organization but an operating ratio calculation is essential in order to allow Purchase Public to build capital and to offset the mismatch of annual cash inflows and annual cash outflows. For example, Staff included the annual recovery of 1/5 of the cost of the KPDES permit in its calculation of pro forma revenue requirements. This inclusion will allow an annual recovery of \$300 although the actual cash outflow in one given year will be \$1,500, thus creating a mismatch. Since there are no stockholders to absorb the excess \$1,200 outflow in the year of payment, the rates approved in this case must be sufficient to offset this mismatch as well as others.

The approach recommended by Staff results in a \$9,328 pro forma revenue requirement calculated as follows:


Pro forma operating expenses	\$ 8,209
Divide by: 88% operating ratio	<u>88%</u>
Revenue Requirement	<u>\$ 9,328</u>


D. Rate Design

In its application, Purchase Public filed a schedule of its present and proposed rates. The utility did not propose to change its present rate design, a flat monthly rate. Staff is of the opinion that the present rate design is reasonable; therefore, any change in revenue in

this case will be added or subtracted to the existing rate structure. The recommended rate as set out in Appendix A will generate \$9,328, in annual revenues based upon Purchase Public's present number of customers.

E. Signatures

  
Prepared By: Jack Scott Lawless, CPA  
Public Utility Financial  
Analyst  
Water and Sewer Revenue  
Requirements Branch  
Rates and Tariffs Division

  
Prepared By: John Geoghagen  
Public Utility Rate  
Analyst  
Communications, Water  
and Sewer Rate Design Branch  
Division of Rates and Research



APPENDIX A  
TO STAFF REPORT CASE NO. 92-536

The Staff recommends the following rate be prescribed for customers of Purchase Public Service Corporation.

Flat Monthly Rate

\$38.87

APPENDIX B  
TO STAFF REPORT FOR CASE NO. 92-536

Purchase Public Service Corporation  
Statement of Adjusted Operations

	Test Year	Adjustments	Pro forma Present Rates
Operating Revenue			
Flat Rate Revenue	\$3,447	\$0	\$3,447
Operating Expenses			
Sludge hauling	60		60
Purchase water	121		121
Other labor and materials	5,010	(5,010)	0
Purchase power	1,797		1,797
Miscellaneous supplies	755	(186)	569
		(242)	327
Routine maintenance	5,860	(1,360)	4,500
Insurance	458		458
Administrative services	0	600	600
Permit	0	300	300
PSC assessment	0	50	50
Total Operating Expenses	14,056	(5,847)	8,209
Net Operating Margin	(\$10,609)	\$5,847	(\$4,762)